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# Sponsoring Organizations in the CACFP—Administrative Effects of Reimbursement Tiering

## A Report to Congress on the Family Child Care Homes Legislative Changes Study

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### Abstract

Sponsors of family child care homes in the Child and Adult Care Food Program (CACFP) took on additional responsibilities as a result of the tiered reimbursement structure introduced in 1997. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated a tiered reimbursement structure designed to target benefits more narrowly to low-income children and called for a study of its effects on program participants and on meals offered to children. Tiering has created a requirement for sponsors to classify family child care homes (providers) and some participating children according to income status. Sponsors surveyed in 1999 also reported that they had increased training and monitoring, expanded services to providers, and heightened recruitment efforts.

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# Executive Summary

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Sponsors of family child care homes in the Child and Adult Care Food Program (CACFP) took on additional responsibilities as a result of the tiered reimbursement structure introduced in 1997. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated a tiered reimbursement structure—designed to target benefits more narrowly to low-income children—and called for a study of its effects on program participants and on meals offered to children. Tiering has created a requirement for sponsors to classify family child care homes (providers) and some participating children according to income status. Sponsors surveyed in 1999 also reported that they had increased training and monitoring, expanded services to providers, and heightened recruitment efforts.

## The CACFP and Tiering

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) mandated changes to reimbursement rates in the CACFP and called for a study of the effects of the changes. Accordingly the U.S. Department of Agriculture (USDA) contracted with Abt Associates Inc. to conduct the *Family Child Care Homes Legislative Changes Study*. This report is one in a series presenting the study findings. (See References, p. 45, for a list of other reports in this series.)

The Child and Adult Care Food Program is a Federal program, administered by USDA, that subsidizes meals and snacks in participating family child care homes, child care centers, after-school care centers, and adult day care facilities. Providers of care are reimbursed at fixed rates for the meals they serve. Meal reimbursements in most types of CACFP facilities have depended on the income level of the child or adult receiving the meal, with higher reimbursements for low-income persons. In family child care homes, however, the CACFP reimbursement rate did not depend on the child's household income from 1978 until the PRWORA changed the rate in 1997.

In order to target CACFP benefits more narrowly to low-income children, the PRWORA established a two-tier structure of meal reimbursement rates for family child care homes. Homes that are located in low-income areas or operated by persons with household incomes that are verified as being at or below 185 percent of the Federal poverty guidelines are classified as Tier 1. Meal reimbursement rates for Tier 1 homes are comparable with the rates that existed for all CACFP homes before the PRWORA. Family child care homes that do not meet the low-income criteria are classified as Tier 2. They have lower reimbursement rates, although they have the option of being reimbursed at Tier 1 rates for children whose family incomes are at or below 185 percent of the poverty guidelines.

The PRWORA required USDA to study the effects of the new tiered reimbursement structure. The study examines its effects on family child care homes, on the organizations that sponsor the homes for participation in the CACFP, and on the children and families served by family child care homes. The present report focuses on tiering's effect on CACFP sponsors. It is based principally on a 1999 survey of 268 sponsors that are statistically representative of the 1,165 sponsors nationwide.

Family child care homes can participate in the CACFP only if they are sponsored by a public or private nonprofit organization that has entered into an agreement with a State agency to administer the program at the local level. Sponsors are responsible for enrolling homes into the program, training the care providers, monitoring compliance with program requirements, receiving the homes' CACFP reimbursement claims, and distributing the reimbursements. Sponsors receive separate administrative cost reimbursements, which were not affected by the PRWORA.

## **Effects on Sponsor Administrative Responsibilities**

The PRWORA explicitly gave sponsors three new responsibilities. They must now:

- Classify all participating child care homes as Tier 1 or Tier 2 homes. This classification may be based on the low-income status of the elementary school attendance area or census block group in which the home is located, or on the provider's own low household income. Most homes' tier classification must be reviewed every one to three years.
- Upon the request of Tier 2 providers, determine the eligibility of individual children for the higher reimbursement level. This involves obtaining information about the children's family incomes or participation in programs that confer categorical CACFP eligibility, such as the Food Stamp Program or Temporary Assistance for Needy Families (TANF). Children's eligibility must be reviewed annually.
- In filing claims for meal reimbursements for Tier 2 homes, indicate the number of meals to be reimbursed at the lower rates and the number at the higher rates.

In addition to the entirely new responsibilities, sponsors had to integrate issues related to tiering into their ongoing responsibilities for training and monitoring providers. Further, because the lower Tier 2 reimbursement rates constitute a reduced incentive for such providers to participate in the CACFP, sponsors might find themselves losing homes or having to intensify their recruitment of homes.

The sponsor survey found that tiering affected various aspects of sponsoring organizations' operations and roles.

- 72 percent of sponsors devoted more staff hours to CACFP activities in 1999 than in January 1997 (before tiering), while only 5 percent devoted fewer hours.
- When sponsors rated the burden associated with their various responsibilities, three of the four most burdensome activities were new responsibilities added by tiering (certifying provider income, making tier assignments based on area characteristics, and determining whether children in Tier 2 homes are eligible for Tier 1 reimbursement).
- The activity rated most burdensome was verifying provider income for Tier 1 classification. About 77 percent of sponsors have qualified some Tier 1 homes on the basis of provider income. With an average of 43 Tier 1 homes qualified this way, these sponsors spend an average of 68 person-hours annually on this task (not counting the time spent to review incomes of providers who do not qualify).

- A majority of sponsors (63 percent) increased the frequency or duration of their training for providers. Some sponsors increased training to explain tiering-related issues, and some to make staying in the program more attractive to providers by offering more services or support.
- Over half of the sponsors (57 percent) increased the frequency or duration of monitoring visits, most often as a means of increasing services.
- Nearly half (46 percent) increased their recruitment activities in some way, most commonly by using additional communications media to make themselves known to child care homes that might want to join the CACFP.
- About half (48 percent) of the sponsors received some of the special funding available from the CACFP State offices to help cover the initial expense of implementing tiering. A fifth said that the funding covered most or all of the expenses.

About two-fifths of the surveyed sponsors (42 percent) say they conduct targeted outreach to low-income areas. About a quarter of those who report increasing their recruitment efforts mention shifting towards more targeted recruitment. It is somewhat surprising that these figures are not higher, given the strong emphasis that the Congress placed on serving such areas and USDA's financial incentives for doing so. USDA made expansion funds available; sponsors who applied for those funds could use them to recruit in low-income and rural areas. USDA also began allowing sponsors to use administrative funds to defray licensing-related expenses for low-income providers.

Nearly half of the surveyed sponsors reported that, because they are sponsoring fewer homes, CACFP administrative payments made up a smaller proportion of their organizational revenue in 1999 than in 1997. Only 17 percent indicated that CACFP payments grew as a fraction of revenue during this period.

National statistics and records provided by the surveyed sponsors indicate that many sponsors saw declines in the number of homes they sponsored in the period after tiering was introduced. USDA administrative data show that the average number of CACFP homes per sponsor declined about 4 percent from 1997 to 1999. From January 1997 to January 1998, the median sponsor in the survey experienced an 8-percent decline in enrolled homes. The average loss was greater among sponsors with substantial proportions of Tier 2 homes.

Sponsors most commonly responded to the loss or anticipated loss of homes by increasing their level of services and stepping up recruitment efforts, as noted above. About 8 percent took the alternative tack of branching out into new kinds of child care activities, such as establishing child care resource or referral networks, presumably to reduce their dependence on CACFP as a source of organizational revenue.

An important question not addressed by this study is whether sponsors' administrative costs after tiering are adequately covered by the existing reimbursement structure, which did not change. Although the survey findings imply that tiering increased the cost per home sponsored, the study provides no direct measures of sponsors' costs or reimbursements. An ongoing USDA study is addressing this question.